

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08
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R 160959Z JUN 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7279

INFO AMEMBASSY SUVA

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USADB

FOR NAC AGENCIES

EO 11652:N/A

TAGS:EAID, EFIN, ADB

SUBJECT:PROPOSED ADB LOAN FOR SECOND POWER PROJECT, FIJI

SUMMARY: ADB MANAGEMENT PROPOSES 16.2 MILLION DOLLARS EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO FIJI TO FINANCE A MAJOR PORTION OF THE FOREX COST OF CONSTRUCTION OF TRANSMISSION LINES AND SUBSTATIONS TO INTERCONNECT THREE MAJOR CENTERS OF POWER GENERATION AND CONSUMPTION. ADB MANAGEMENT ALSO PROPOSES 70,000 DOLLARS IN TECHNICAL ASSISTANCE GRANT FOR A TARIFF STUDY FOR THE FIJI ELECTRICITY AUTHORITY (FEA). FEA, THE EXECUTING AGENCY AND BORROWER, IS CONSIDERED TO BE A FAIRLY EFFICIENT ORGANIZATION WITH COMPETENT MANAGEMENT. ITS ENERGY LOSSES FROM STATION USES AND DISTRIBUTION ARE 3.8 PERCENT OF TOTAL ENERGY GENERATED AND PURCHASED AND 8.4 PERCENT IF UNMETERED STREET LIGHTING IS INCLUDED IN THE CALCULATIONS.

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BOTH ARE WELL WITHIN ACCEPTABLE LIMITS. FINANCIAL INTERNAL RATE OF RETURN (FIRR) IS ESTIMATED AT 14 PERCENT. THE ECONOMIC INTERNAL RATE OF RETURN (EIRR), HOWEVER, WAS NOT CALCULATED BUT THE ECONOMIC JUSTIFICATION IS BASED ON THE PROJECT'S COMPLEMENTARITY TO THE MONASAVU WAILOA HYDROELECTRIC SCHEME (MHS), AN IBRD FINANCED PROJECT. THIS SCHEME HAS BEEN IDENTIFIED AS THE MOST ECONOMIC FIRST

PHASE SCHEME IN THE HYDROPOWER DEVELOPMENT PROGRAM FOR THE COUNTRY. IT IS CONSIDERED AS THE CORE OF FEA'S LEAST COST LONG-TERM POWER DEVELOPMENT PLAN FOR MEETING ITS PROJECTED LOAD GROWTH FROM 1981 ONWARDS. PROJECT APPEARS TECHNICALLY AND ECONOMICALLY FEASIBLE, THEREFORE USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC NO. R50-78 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN AND GRANT POUCHED ADDRESSEES JUNE 13. BOARD CONSIDERATION SCHEDULED JUNE 29.

2. ADB MANAGEMENT PROPOSES 16.2 MILLION DOLLARS LOAN FROM ORDINARY CAPITAL RESOURCES TO FIJI FOR SECOND POWER PROJECT AND 70,000 DOLLARS TA GRANT TO FINANCE THE COST OF AN FEA TARIFF STUDY. PROCEEDS FROM THE LOAN WILL FINANCE ABOUT 93 PERCENT OF THE FOREIGN EXCHANGE COST OF THE CONSTRUCTION OF A 132 KV TRANSMISSION LINE AND SUBSTATIONS TO INTERCONNECT THE CENTERS OF SUVA AND LAUTOKA AND THE PROPOSED MONASAVU HYDROELECTRIC GENERATION SCHEME AND TO ESTABLISH SYSTEMS CONTROLS AND COMMUNICATION FACILITIES. GOVERNMENT ALSO REQUESTED TA FOR ADVISORY AND INSTITUTIONAL BUILDING THROUGH WHICH A TARIFF EXPERT-CUM-POWER ECONOMIST WILL UNDERTAKE A STUDY OF THE ADEQUACY OF FEA'S LONG RANGE TARIFF POLICY AND TARIFF STRUCTURE. THE BANK PROPOSES A GRANT OF 70,000 DOLLARS TO COVER THE FOREX COST OF THE EXPERT. PROPOSED TERMS OF THE LOAN ARE 20 YEARS LIMITED OFFICIAL USE

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AMORTIZATION INCLUDING 4 YEAR GRACE PERIOD AND 7.70 PERCENT INTEREST PER ANNUM. BORROWER AND EXECUTING AGENCY IS FIJI ELECTRICITY AUTHORITY WITH THE GOVERNMENT OF FIJI AS GUARANTOR.

3. FEA HAS THE PRIMARY RESPONSIBILITY FOR ELECTRIC POWER SUPPLY IN FIJI ALTHOUGH CURRENTLY IT PROVIDES ABOUT ONE-THIRD OF THE COUNTRY'S TOTAL PUBLIC ELECTRICITY SUPPLY. THE SUVA CITY COUNCIL'S ELECTRICITY DEPARTMENT (SCCED) IS LICENSED TO PRODUCE THE BALANCE. DOMESTIC CONSUMERS ACCOUNT FOR ABOUT 18 PERCENT OF TOTAL FEA ENERGY SALES IN FIJI WHILE COMMERCIAL AND INDUSTRIAL USERS ACCOUNT FOR 72 PERCENT OF WHICH NANDI AIRPORT ACCOUNTS FOR ABOUT 10 PERCENT. SCCED SERVES THE CONCENTRATED URBAN MARKET IN AND AROUND THE CAPITAL CITY OF SUVA WITH ABOUT 21,000 CONSUMERS OF WHICH 80 PERCENT ARE DOMESTIC HOUSEHOLDS, BUT WHICH ACCOUNT FOR ONLY 27 PERCENT OF SCCED'S ENERGY SALES. ABOUT 50 PERCENT OF THE POPULATION IN THE COUNTRY HAS ACCESS TO ELECTRIC POWER AND PER CAPITA CONSUMPTION IS FAIRLY HIGH AT ABOUT 400 KWH. ALL POWER IN FIJI IS CURRENTLY PRODUCED BY DIESEL GENERATORS. FIJI HAS NO CONVENTIONAL INDIGENOUS ENERGY RESOURCES OTHER THAN ITS

HYDROELECTRIC POTENTIAL FOR WHICH THE FIRST MAJOR STUDY OF ITS POTENTIAL WAS COMPLETED IN 1976 WITH THE RESULT THAT A NUMBER OF HYDROPOWER SCHEMES HAVE BEEN IDENTIFIED FOR POSSIBLE LONG TERM DEVELOPMENT.

4. FEA PRESENTLY OPERATES 36 UNITS FOR A TOTAL CAPACITY OF ABOUT 35 MW. AT LEAST 16 OF THE UNITS ARE MORE THAN 20 YEARS OLD, BUT THESE HAVE AN AGGREGATE CAPACITY OF 5.5 MW. SCCED'S INSTALLED CAPACITY IS ABOUT 53 MW, BUT SERIOUS BREAKDOWNS DUE LARGELY TO PAST NEGLECT OF PROPER MAINTENANCE HAS SERIOUSLY DIMINISHED THE RELIABILITY OF THE POWER SUPPLY. FEA HAS RECENTLY ASSUMED MANAGEMENT RESPONSIBILITY FOR SCCED AND IS NOW TAKING MEASURES TO REMEDY A SERIOUS SHORTAGE OF SKILLED MAINTENANCE STAFF.
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ACTION TRSE-00

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THESE INCLUDE THE ENGAGEMENT OF AN EXPATRIATE STATION SUPERINTENDENT FOR ONE STATION AND THE RETENTION OF FOREIGN

FIRMS FOR THE SUPERVISION OF THE OVERHAUL AND REHABILITATION OF THE DAMAGED UNITS. THE CURRENT CAPACITY OF THE EXISTING DISTRIBUTION SYSTEM IS INADEQUATE, THUS THE MAJOR CAUSE OF OVERLOAD AND INTERRUPTION OF SERVICE. BOTH THE FEA AND SCCED SYSTEMS ARE BEING EXPANDED WITH NEW HIGH CAPACITY LINES AND THE PROPOSED PROJECT IS AN INTEGRAL PART OF THE SYSTEM'S FUTURE CAPACITY. ENERGY SALES GROWTH IN FIJI HAS IN RECENT YEARS AVERAGED ABOUT 10.8 PERCENT PER ANNUM. FUTURE ANNUAL GROWTH IS ESTIMATED AT ABOUT 9 PERCENT THROUGH 1983. ITS FUTURE POWER DEVELOPMENT PLANS WILL DEPEND LARGELY ON ALTERNATIVE SOURCES OF ENERGY SUCH AS HYDROELECTRIC SCHEMES, THE FIRST OF WHICH IS THE 15 MILLION DOLLAR IBRD FINANCED MONASAVU-WAIOLOA HYDROELECTRIC SCHEME (MHS). THE FEA POWER DEVELOPMENT PROGRAM ALSO PROVIDES FOR THE CONSTRUCTION OF A NEW 132 KV LIMITED OFFICIAL USE

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TRANSMISSION SYSTEM AND ITS EXPANSION DURING THE NEXT 25 YEARS. THESE LINES WILL CONVEY POWER FROM THE RECOMMENDED HYDROELECTRIC SCHEMES PRIMARILY TO THE WESTERN AREA AND THE SUVA CITY AREA, TOGETHER WITH PROGRESSIVE EXTENSION OF 33 KV SUBTRANSMISSION LINES TO DISTRIBUTE HYDROPOWER TO THE SMALLER LOAD CENTERS.

5. THE PROJECT INVOLVES: (I) THE CONSTRUCTION OF A 132 KV SINGLE CIRCUIT TRANSMISSION LINE OF APPROXIMATELY 143 KM.; (II) THE CONSTRUCTION OF THREE 132 KV SUB-STATIONS AT WAILOA, VUNDA AND SUVA; AND (III) THE ESTABLISHMENT OF SYSTEMS CONTROL AND COMMUNICATION FACILITIES. THE TRANSMISSION LINE WILL INITIALLY INTERCONNECT THE EXISTING POWER SYSTEMS IN THE WESTERN AREA AND THE SUVA CITY AREA BY SEPTEMBER 1980 IN ADVANCE OF THE MHS ENABLING THE INTERCHANGE OF POWER AND THE POOLING OF RESERVES WHICH WILL ELIMINATE THE NEED FOR ADDITIONS TO DIESEL GENERATING CAPACITY IN THE SUVA AREA. ON COMPLETION OF THE MHS BY MID-1981, THE PROJECT WILL TRANSMIT POWER FROM THE PROPOSED WAILOA HYDROPOWER STATION TO THE TWO NETWORKS. THE PLANNING AND CONTENTS OF THE PROJECT ARE IN CONSONANCE WITH THE CONCLUSIONS REGARDING POWER SECTOR DEVELOPMENT OF THE BANK'S RECENT POST EVALUATION REPORT OF THE POWER SUPPLY PROJECT OF FEA DATED APRIL 1978, PARTICULARLY IN REGARDS TO INTEGRATION OF FIJI POWER SYSTEMS AND USE OF DIESEL UNITS THAT WILL BECOME SURPLUS AS HYDROPOWER COMES ON LINE. THE SYSTEMS CONTROL AND COMMUNICATIONS FACILITIES WILL CONSIST OF: (I) A NATIONAL CONTROL CENTER, TO BE LOCATED NEAR THE NEW 132 KV SUBSTATION AT VUNDA, FOR (A) THE REMOTE CONTROL AND TELEMETERING OF HYDROPOWER GENERATION; (B) SWITCHING OPERATIONS AND MONITORING OF THE 132 KV SYSTEM; AND (C) LOAD DISPATCHING FOR BACK-DIESEL GENERATION; (II) TWO REGIONAL CONTROL CENTERS AT VUNDA AND

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AT KANOYA, WHICH WILL BE RESPONSIBLE FOR LOADING THE DIESEL GENERATORS IN THEIR RESPECTIVE AREAS AND FOR SWITCHING OPERATIONS ON THE 33 KV AND LOWER VOLTAGE SYSTEMS; AND (III) A COMMUNICATION NETWORK FOR THE 132 KV SYSTEMS, TO PROVIDE SUPERVISORY CONTROL AND TELEPHONE COMMUNICATIONS.

6. SURVEYS CONDUCTED BY SIR ALEXANDER GIBB AND PARTNERS OF AUSTRALIA IN CONSULTATION WITH ENVIRONMENTAL ADVISER TO THE FIJIAN GOVERNMENT HAVE REVEALED THAT NO SIGNIFICANT ADVERSE ENVIRONMENTAL EFFECTS ARE EXPECTED TO ARISE FROM THE PROJECT. SPECIFICALLY, THE PROJECT IS NOT EXPECTED TO HAVE AN ADVERSE IMPACT ON FIJI'S TELECOMMUNICATION SYSTEMS. INVESTIGATIONS BY FIJI INTERNATIONAL TELECOMMUNICATIONS LTD., WHICH OPERATES A SATELLITE EARTH STATION IN THE VICINITY OF THE PROPOSED TRANSMISSION LINE ROUTE, HAVE CONFIRMED, THAT THE LIKELIHOOD OF ANY DEGRADATION OF INTERNATIONAL TELECOMMUNICATIONS SERVICES IS MINIMAL. ASSURANCES HAVE, NEVERTHELESS, BEEN GIVEN BY FEA THAT IN THE UNLIKELY EVENT OF THE PROJECT CAUSING DISTURBANCES TO TELECOMMUNICATION SERVICES, REMEDIAL ACTION WILL BE TAKEN.

7. THE TOTAL ESTIMATED COST OF THE PROPOSED PROJECT IS 23.1 MILLION DOLLARS INCLUDING A FOREX COMPONENT OF 17.5 MILLION DOLLARS. HOWEVER, THE TOTAL COST EXCLUDES ABOUT 2.3 MILLION DOLLARS IN INTEREST DURING CONSTRUCTION WHICH WILL BE FINANCED BY THE GOVERNMENT. CONSTRUCTION WORKS INCLUDING TRANSMISSION LINES, TRANSFORMERS, SUBSTATIONS, SYSTEMS CONTROL/COMMUNICATIONS, CONSTRUCTION EQUIPMENT AND PREPARATORY WORKS/CIVIL WORKS, ARE ESTIMATED AT 17.2 MILLION DOLLARS OF WHICH 13 MILLION IS IN FOREX. ENGINEERING CONSULTING SERVICES IS ESTIMATED AT 1.6 MILLION DOLLARS WITH 1.3 MILLION DOLLARS IN FOREX. CONTINGENCIES INCLUDING PRICE ESCALATION IS ESTIMATED AT 2.6 MILLION DOLLARS OR 15 PERCENT OF TOTAL COST ESTIMATE. COST ESTIMATES REFLECT MID 1977 INTERNATIONAL PRICE LEVELS WITH 10 PERCENT CONTINGENCIES AND ANNUAL PRICE ESCALATIONS OVER

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THE PERIOD OF CONSTRUCTION. THE PROJECT IS EXPECTED TO BE COMPLETED WITHIN 30 MONTHS FROM ISSUANCE OF TENDERS FOR THE TRANSMISSION LINE.

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8. ALL PROCUREMENT UNDER THE PROJECT WILL BE UNDERTAKEN BY FEA WITH THE ASSISTANCE OF GIBB IN ACCORDANCE WITH BANK'S "GUIDELINES FOR PROCUREMENT." EACH CONTRACT FOR SUPPLY AND ERECTION OF EQUIPMENT AND MATERIALS ESTIMATED TO COST 100,000 DOLLARS EQUIVALENT OR MORE WILL BE AWARDED ON THE BASIS OF INTERNATIONAL COMPETITIVE BIDDING. THE ITEMS TO BE PROCURED UNDER INTERNATIONAL COMPETITIVE BIDDING CONSIST OF: (I) 132 KV TRANSMISSION LINE MATERIALS; (II) 132 KV TRANSFORMERS; (III) 132 KV SWITCHGEAR AND SUBSTATION EQUIPMENT; AND (IV) SYSTEMS CONTROL AND COMMUNICATION EQUIPMENT. EACH SUPPLY CONTRACT ESTIMATED TO COST LESS THAN 100,000 DOLLARS EQUIVALENT WILL BE AWARDED ON THE BASIS OF INTERNATIONAL SHOPPING. THE BULK OF THE CONSTRUCTION EQUIPMENT WILL BE PROCURED FOR USE BY SPECIAL PROJECTS DIVISION (SPD) EXCLUSIVELY FOR THE PROJECT IN ACCORDANCE WITH THE BANK'S "GUIDELINES FOR PROCUREMENT." SOME EQUIPMENT WILL, HOWEVER, BE HIRED.
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WITH REGARD TO THE ASSOCIATED PREPARATORY WORKS AND CIVIL WORKS TO BE UNDERTAKEN THROUGH FORCE-ACCOUNT BY SPD,

ESTIMATED AT A BASE COST OF 4.2 MILLION DOLLARS, THE MISSION HAS DETERMINED THE FOREIGN EXCHANGE COMPONENT TO BE ABOUT 1.2 MILLION DOLLARS, OR 30 PERCENT. THE AMOUNT OF 1.2 MILLION DOLLARS (PLUS CONTINGENCIES) WILL BE FINANCED UNDER THE PROPOSED LOAN AND 30 PERCENT WILL BE USED AS THE PERCENTAGE FOR THE PURPOSE OF LOAN WITHDRAWALS. ENGINEERING CONSULTING SERVICES FOR THE PROJECT, INCLUDING DETAILED DESIGN, ASSISTANCE IN TENDERING AND CONSTRUCTION SUPERVISION WILL BE SUPPLIED BY GIBB WHO WILL ALSO PROVIDE CONSULTING SERVICES FOR THE MHS. GIBB'S PERFORMANCE ON PROJECT PREPARATION HAS SO FAR BEEN SATISFACTORY. FEA'S PROPOSAL FOR THE PROVISION BY GIBB OF ENGINEERING CONSULTANCY SERVICES FOR THE PROJECT IS SUPPORTED BY THE MISSION. A CONTRACT BETWEEN GIBB AND FEA, ON TERMS AND CONDITIONS SATISFACTORY TO THE BANK, WILL BE CONCLUDED. THE FIJI GOVERNMENT WILL FINANCE THE ENTIRE COST OF THE CONSULTING SERVICES. IT IS EXPECTED THAT THE AUSTRALIAN DEVELOPMENT ASSISTANCE BUREAU WILL BE THE GOVERNMENT'S SOURCE OF FUNDS FOR THESE SERVICES.

9. FEA WILL BE THE EXECUTING AGENCY FOR THE PROJECT AND THE BORROWER OF THE LOAN FUNDS. ESTABLISHED IN 1966 AS A STATUTORY SEMI-AUTONOMOUS CORPORATION, FEA IS CONTROLLED BY THE MINISTRY OF WORKS AND IS CHARGED WITH THE PROVISION OF ADEQUATE SUPPLIES OF ELECTRIC POWER IN FIJI AT REASONABLE PRICES, HOWEVER, IT IS EXEMPT FROM CORPORATE INCOME TAXES. ADMINISTRATIVE CONTROL IS VESTED IN A 7-MAN BOARD OF DIRECTORS APPOINTED BY THE MINISTRY OF WHICH 3 ARE GOVERNMENT OFFICIALS. FEA'S GENERAL MANAGER, HOWEVER, IS RESPONSIBLE FOR ITS ROUTINE MANAGEMENT FUNCTIONS. HE IS CONSIDERED WELL QUALIFIED AND EXPERIENCED AND IS LIMITED OFFICIAL USE

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RESPONSIBLE FOR A STAFF OF 600 MEMBERS THAT ARE CONSIDERED ADEQUATE. DESPITE ITS SATISFACTORY PERFORMANCE, FEA PLANS TO EXPAND ITS STAFF AND REORGANIZE ITS TECHNICAL OPERATIONS BY THE TIME THE PROJECT IS COMPLETED. ITS ENERGY LOSSES FROM STATION AUXILIARY USE AND DISTRIBUTION LOSSES INCLUDING UNMETERED USE FOR STREET LIGHTING ARE WITHIN ACCEPTABLE LIMITS, 3.8 PERCENT AND 8.4 PERCENT RESPECTIVELY OF TOTAL ENERGY GENERATED AND PURCHASED. FEA HAS RECENTLY ESTABLISHED ITS OWN TRAINING CENTER WHICH WILL EVENTUALLY OFFER COURSES IN ACCOUNTING AND GENERAL ADMINISTRATION AS WELL AS TECHNICAL SKILLS. IN ADDITION TO ITS TRAINING PROGRAM, CONTRACTORS UNDER THE PROJECT WILL BE REQUIRED TO TRAIN FEA'S TECHNICAL STAFF DURING THE COURSE OF CONSTRUCTION AND COMMISSIONING OF THE PROJECT. FEA'S PERFORMANCE ON THE PRIOR POWER SUPPLY PROJECT WAS SATISFACTORY ACCORDING TO A POST-EVALUATION OF THE PROJECT.

10. ACCOUNTING AND FINANCIAL CONTROL SYSTEMS AT FEA ARE GENERALLY ADEQUATE, HOWEVER, ITS LONG RANGE FINANCIAL PLANNING AND CONTROL PROCEDURES NEED IMPROVEMENT. IN ADDITION, FEA HAS NO INTERNAL AUDIT UNIT AT THIS TIME. HOWEVER, IT HAS AGREED TO ESTABLISH SUCH A UNIT WITHIN ONE YEAR FOLLOWING LOAN EFFECTIVENESS. A SHORTAGE OF AUDIT PERSONS AMONG FIJANS IS THE PRIMARY REASON FOR THE LONG LEAD TIME FOR IMPLEMENTING THIS COVENANT. FEA'S CURRENT STATUTORY AUDIT ARRANGEMENTS ARE SATISFACTORY, HOWEVER, IT LACKS AN INTERNAL UNIT TO INSURE COMPLIANCE BY FEA OF FINANCIAL COVENANTS OF THE BANK AND TO DETERMINE THE ADEQUACY OF ITS OWN FINANCIAL CONTROL PROCEDURES. ANOTHER PROBLEM IS THAT ITS TARIFF SCHEDULE DOES NOT REFLECT THE REAL COST OF SERVICES TO ALL CONSUMERS AND SOME ARE SUBSIDIZED AT THE EXPENSE OF OTHERS. FEA'S FINANCIAL POSITION NEEDS TO BE STRENGTHENED AND THIS WILL BE DONE THROUGH A RATIONALIZATION OF ITS ENTIRE TARIFF SCHEDULE. THE BANK IS PROPOSING 70,000 DOLLARS FOR THE STUDY WHILE FEA CONTRIBUTES 18,000 DOLLARS FOR LOCAL LIMITED OFFICIAL USE

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COSTS. THE STUDY WILL BE CARRIED OUT BY A POWER ECONOMIST TARIFF EXPERT OVER THE SIX MONTH PERIOD BEGINNING OCTOBER 1, 1979 TO MARCH 31, 1980. FEA HOPES TO STABIL-

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ACTION TRSE-00

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IZE ITS FINANCIAL POSITION AS A RESULT OF THE STUDY. OVER THE 1972-1977 PERIOD, FEA'S FINANCIAL POSITION DETERIORATED AS INCREASED FUEL PRICES, HEAVY INTEREST PAYMENTS, HIGH REPAIR COSTS TO PLANT THAT WAS DAMAGED BY A HURRICANE AND RISING WAGE RATES REDUCED ITS EARNINGS. HOWEVER, ITS 1977-1985 NET EARNINGS PROJECTION INDICATES INCREASES OF NEARLY FIVE FOLD BY 1985. OVER THE SAME PERIOD ITS DEBT-EQUITY POSITION IS EXPECTED TO WORSEN SOMEWHAT FROM 50:50 IN 1977 TO AN ESTIMATED 61:39 BY 1985 AFTER REACHING A HIGH 67:33 IN 1980-82. THESE ESTIMATES ASSUME CONTINUOUSLY INCREASING PRICE LEVELS WHILE AVERAGE GENERATING COSTS/KWH WILL NOT INCREASE ABOVE CURRENT LEVELS BECAUSE OF THE BENEFITS YIELDED BY THE ECONOMY OF SCALE ARISING FROM THE LARGER SCALE OF OPERATIONS AND THE COST ADVANTAGES OF HYDROPOWER.

11. THE PROJECT'S COMPLEMENTARITY TO THE MHS IS THE BASIS
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FOR ASSESSING ITS VIABILITY AND FOR CALCULATING THE FINANCIAL INTERNAL RATE OF RETURN (FIRR). THE BANK HAS GONE SO FAR AS TO PROVIDE IN THE LOAN AGREEMENT LANGUAGE TO THE EFFECT THAT ALLOWS IT TO SUSPEND THE LOAN SHOULD IT BECOME IMPROBABLE THAT THE MHS CAN BE SUCCESSFULLY COMPLETED. THEREFORE, THE FIRR IS CALCULATED ON THE CAPITAL COST OF THE COMBINED SCHEME AT MID 1977 PRICES INCLUDING INTEREST DURING CONSTRUCTION, AND ANNUAL OPERATING AND MAINTENANCE COSTS INCLUDING REPLACEMENT OF SHORT LIFE ELEMENTS. ON THIS BASIS THE FIRR IS ESTIMATED AT 14 PERCENT OVER THE 50 YEAR LIFE OF THE SCHEME. AN ECONOMIC INTERNAL RATE OF RETURN (EIRR), HOWEVER, WAS NOT CALCULATED AS THE BANK BELIEVES THAT MEASURING ECONOMIC BENEFITS ACCURATELY IS EXTREMELY DIFFICULT AS SALES REVENUE DERIVED FROM THE SCHEME IS NOT CONSIDERED TO PROVIDE A TRUE MEASURE OF ITS ECONOMIC BENEFITS. IDEALLY, ECONOMIC BENEFITS SHOULD BE MEASURED IN TERMS OF THE CONSUMERS' WILLINGNESS TO PAY FOR POWER CONSUMED, WHICH IS NOT ADEQUATELY REFLECTED IN TARIFFS. HOWEVER, BY USING POWER SALES REVENUES AS A PROXY FOR THE MEASURE OF ECONOMIC BENEFITS, A RATE OF RETURN WITH A LOWER LIMIT AROUND 14 PERCENT MAY BE REALIZED.

12. USADB COMMENTS: FEA IS EMBARKED ON AN AMBITIOUS BUT NOT UNREALISTIC CAPITAL EXPENDITURE PROGRAM DESIGNED TO

SIGNIFICANTLY EXPAND ITS GENERATION AND DISTRIBUTION
INFRASTRUCTURE OVER THE NEXT 5 TO 8 YEARS. WHILE FEA
APPEARS TO BE ABLE TO MANAGE ITS DEBT LOAD, THE BANK IS
ASKING GOVERNMENT TO GUARANTEE TO PROVIDE ANY UNFORESEEN
SHORTFALLS IN FUNDS REQUIRED TO FINANCE THE PROJECT AND
THE MHS. IT IS ALSO REQUIRING THE FEA TO PROVIDE THE
BANK WITH AN UPDATED FINANCING PLAN BY THE LAST OF AUGUST
OF EACH YEAR OF THE PROJECT, THEREFORE, INDICATING SOME
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CONCERN ON THE PART OF BANK FOR THE VIABILITY OF THE
PROJECT. NEVERTHELESS, THE BANK BELIEVES THAT ITS PRO-
POSED GENERAL REVENUE COVENANT IS CONSISTENT WITH SOUND
BUSINESS, FINANCIAL AND PUBLIC UTILITY PRACTICES. IT
REQUIRES THE BORROWER TO ENSURE THAT THE CHARGES AND RATES
FOR THE SUPPLY OF ELECTRICITY PROVIDE SUFFICIENT REVENUES
TO COVER OPERATING EXPENSES, DEBT AMORTIZATION, COMPENSA-
TION TO SCED FOR THE ASSETS ACQUIRED BY FEA AND A
REASONABLE PORTION OF THE BORROWERS' CAPITAL INVESTMENT.
FIRR IS SATISFACTORY AT 14 PERCENT, BUT THE EIRR WAS NOT
CALCULATED AS THE BANK BELIEVES THAT REALISTIC ECONOMIC
BENEFITS CANNOT BE ESTIMATED ACCURATELY IN POWER PROJECTS
IN GENERAL. WE NOTE THAT THE APPRAISAL REPORT DID NOT
ATTEMPT TO IDENTIFY BENEFICIARIES NOR TO CALCULATE THE
POTENTIAL IMPACT OF THE PROJECT ON THE BENEFICIARIES.
NEVERTHELESS THE PROJECT IS WELL DESIGNED AND APPEARS TO
BE A KEY ELEMENT IN THE FIJI POWER ENERGY SYSTEM. USADB
SUPPORTS THE PROJECT AND RECOMMENDS FAVORABLE NAC ACTION.

13. REQUEST AMEMBASSY SUVA COMMENTS FOR NAC AGENCIES,
INFO USADB MANILA, PURSUANT TO STATE 119795 DATED
JULY 3, 1972. WESTCOTT

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Message Attributes

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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
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Disposition History: n/a
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From: MANILA USADB
Handling Restrictions: n/a
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ISecure: 1
Legacy Key: link1978/newtext/t19780651/aaaabrqq.tel
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Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e9d35087-c288-dd11-92da-001cc4696bcc
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Review Date: 04 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2323626
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN FOR SECOND POWER PROJECT, FIJI SUMMARY: ADB MANAGEMENT PROPOSES 16.2 MILLION DOLLARS EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO
TAGS: EAID, EFIN, ADB
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